



# Egypt: Background and U.S. Relations

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## Summary

This report provides a brief overview of the key issues for Congress related to Egypt and information on U.S. foreign aid to Egypt. The United States has provided significant military and economic assistance to Egypt since the late 1970s. U.S. policy makers have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running military cooperation and on sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have viewed Egypt's government as generally influencing developments in the Middle East in line with U.S. interests. U.S. policy makers are now grappling with complex questions about the future of U.S.-Egypt relations, and these debates and events in Egypt are shaping consideration of appropriations and authorization legislation in the 112<sup>th</sup> Congress.

For Obama Administration officials and the U.S. military, there is a clear desire to engage Egyptian President Muhammad Morsi's new government on a host of issues, including immediate economic support and Sinai security. For others, opportunities for renewed diplomacy may be overshadowed by disruptive political trends that have been unleashed by the so-called Arab awakening and allowed for more expression of anti-Americanism, radical Islamist politics, antipathy toward Israel, and sectarianism, among others.

For FY2013, President Obama is requesting \$1.55 billion in total bilateral aid to Egypt (\$1.3 billion in military aid and \$250 million in economic aid). The aid levels requested are unchanged from FY2012 appropriations. In late September 2012, House Foreign Affairs Committee Chairwoman Ileana Ros-Lehtinen and House Foreign Operations Appropriations Subcommittee Chairwoman Kay Granger placed holds on a congressionally notified \$450 million Economic Support Fund (ESF) cash transfer to Egypt. Those funds that would have been used to pay down Egypt's bilateral debt to the United States in exchange for Egyptian government commitment to a fiscal stabilization program as prescribed by the International Monetary Fund. As of early December 2012, the holds on the cash transfer remain in place.

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## Overview: Egypt's Constitutional Crisis

On November 22, Egyptian President Muhammad Morsi issued a controversial constitutional declaration that has sharply divided the Egyptian polity, heightening the potential for violent unrest in the most populous Arab country in the Middle East and a longtime strategic partner of the United States. As of December 6, 2012, reports indicate that mass protests and violent clashes between proponents and opponents of Morsi are continuing, and at least six people have been killed and 450 injured. The Obama Administration and many Members of Congress are closely monitoring developments in Egypt in the hope that civil strife does not spiral out of control. In the context of a volatile regional environment that has witnessed two years of revolutionary upheaval, sectarian conflict, terrorist attacks, and recent clashes between Israelis and Palestinians in Gaza, U.S. Secretary of State Hillary Rodham Clinton has urged both sides to engage in a dialogue to maintain order and find a path forward. Heightened instability in Egypt could have serious negative consequences for regional and U.S. national security. To date, the overall level of violence has been somewhat limited. However, should the political impasse endure, the risk of violent confrontation could increase. So far, Egypt's military, the most durable state institution, has remained publicly silent over the constitutional dispute, though many experts believe that the army may move to reassert its control over civilian politics if the current situation is not peacefully resolved soon. It has already deployed tanks outside the presidential palace in order to maintain public security.

## Background

The political battle over drafting a new Egyptian constitution reflects the deep divisions in post Mubarak Egypt. Liberal and secular forces distrust the country's democratically, but narrowly elected President, Mohammed Morsi, an Islamist and former leading Muslim Brotherhood activist. His opponents believe that Morsi is seeking to consolidate Islamist control over the entire political system.<sup>1</sup> President Morsi and his supporters are at odds with prominent judges who have used court decisions to institutionally weaken the Islamist-led parliament and limit Morsi's authority since his election in June 2012. Morsi supporters believe many of these judges are Mubarak holdovers or nationalists hostile to Islamist rule.

Under the terms of Egypt's interim constitutional arrangements, a 100-person Constituent Assembly has been tasked with drafting a new permanent constitution. The Assembly was appointed by the lower house of parliament elected in late 2011. Like the Egyptian public, the Assembly's membership generally was divided along secular and Islamist lines, with Islamists in the majority. For months its members debated draft language governing the role of religion in civic life, the role of the military, and the future form of government. However, the legal status of the Assembly had been in question since the courts ruled it invalid and then later invalidated the electoral process that governed parliamentary elections, leading to the military's dissolution of the Islamist-dominated lower house of parliament which appoints Assembly members.

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<sup>1</sup> This view was reinforced in August 12, when Morsi issued a new constitutional declaration abrogating a June 2012 military-issued document, restoring full executive authority to the president, and providing him with interim legislative powers until the election of a new parliament following the completion of the new constitution.

The current crisis erupted as lawsuits questioning the validity of the Assembly moved further through the courts, and some legal experts predicted the Assembly was soon to be disbanded.<sup>2</sup> Had that transpired, the process of selecting members of the Assembly would have had to begin anew—a setback for Islamists who held a majority of Assembly seats. President Morsi presumably feared having to appoint a more politically balanced Assembly in order to appease the courts. Morsi also may have feared that drawing out the transition process even further would damage the country's prospects for economic recovery. Moreover, almost all the secular and Coptic Christian members of the Assembly were boycotting its proceedings by mid-November.

Morsi preempted judicial action by issuing an executive document on November 22 that declared, among other things, that his decisions are immune from judicial review until the approval of a new constitution. Many elements of the judicial establishment and non-Islamist segments of the public were swift in condemning what they described as a power grab. International reactions were mixed, and speculation focused on the timing of Morsi's move, which followed praise for his success in brokering an Israeli-Hamas cease-fire and the approval of a \$4.8 billion IMF loan for Egypt.

In the weeks since that November 22 document was issued, protesters have returned to the streets of Cairo and have ransacked Muslim Brotherhood offices elsewhere in the country. On December 4, President Morsi was escorted from the presidential palace after thousands of demonstrators held a rally outside its gates. Morsi supporters have staged counterdemonstrations and clashed with opponents outside the palace on December 5. The crisis has galvanized what until now had been a loose coalition of liberal youth, secular political parties, supporters of the Mubarak regime, and Coptic Christians. In recent days, prominent figures led by Nobel laureate Mohamed ElBaradei formed the broad-based National Salvation Front coalition in opposition to Morsi's recent actions.

President Morsi has not backed away from his declaration despite the mounting opposition. On the contrary, he has accelerated the constitutional approval process, asking the remaining, almost exclusively Islamist members of the Constituent Assembly to complete a draft document. The Assembly completed a draft that Morsi then approved (see criticisms of the draft below). He has scheduled a public referendum on the constitution for December 15. His opponents have vowed to prevent the referendum from taking place, raising the prospect of a political showdown with potentially violent consequences.

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<sup>2</sup> If the courts had declared the Assembly invalid, then, according to President Morsi's August 12 constitutional declaration, the president will form a new 100-member Assembly to draft the constitution, which would then have three months to produce a draft. Within 30 days of the issuance of that draft document, a public referendum would be held to determine its approval. Within 60 days of its approval, new parliamentary elections would be held.

### **Timeline: Egyptian Constitutional Crisis 2012**

November 19: over the course of three days, 26 liberal and Christian members of Egypt's 100-member Constituent Assembly (CA) resign; 11 are replaced by members of the Muslim Brotherhood.

November 22: the day after the announcement of a cease-fire in Gaza (an agreement Egypt helped broker and for which it was widely praised internationally), President Morsi issues a decree granting himself broad powers, making his decisions immune from judicial review until the approval of a new constitution; protecting the Constituent Assembly from being disbanded; and firing several Mubarak-era officials and ordering retrials for those already convicted, including Mubarak himself. Morsi supporters argue the move is only temporary and is necessary to safeguard the revolution; opposition leaders such as Mohammed ElBaradei condemn the decree as a dangerous and unconstitutional seizure of absolute power.

November 23: tens of thousands of opposition protesters take to Cairo's Tahrir Square; over 100 people are injured.

November 24: the Judges Club (association of Egyptian judges) calls for a nationwide strike by judges; the Supreme Constitutional Court (SCC), one of the main targets of Morsi's decree, announces it may consider disbanding the CA.

November 25: on the first day of trading since the decree, the Egyptian stock market plunges nearly 10%, as protests continue around the country.

November 26: in an apparent compromise with the judiciary, Morsi releases a statement that limits his powers to "acts of sovereignty" (e.g., declaring war), but keeps the CA from being dissolved by the SCC before it finishes its work on the new constitution.

November 27: Citing fears of clashes between the rival rallies, the Muslim Brotherhood calls off its pro-Morsi demonstration; nearly two hundred thousand gather in Tahrir Square to protest Morsi's decree, with some calling for his resignation.

November 28: after reports that the SCC is preparing to disband the Constituent Assembly, the head of the CA announces that the drafting of the new constitution, originally scheduled for February, will be completed that day and voted on the next.

November 29: the constitution is approved in an article-by-article vote by the CA.

December 1: Morsi announces a national referendum on the constitution will take place on December 15.

December 2: the SCC attempts to meet to decide on disbanding the CA (a ruling that would have been largely symbolic, given Morsi's decree) but is prevented from doing so by a public demonstration by Morsi supporters, and subsequently announces an indefinite strike; the Judges Club announces that it will boycott the December 15 referendum and refuse to supervise the voting process.

December 3: the country's judges splinter as some announce their intent to oversee the referendum vote, disappointing those who had hoped a unified boycott of the entire judiciary would delegitimize the draft constitution.

December 4: as an anti-Morsi protest of perhaps a hundred thousand approaches the presidential palace in Cairo's Heliopolis neighborhood, Morsi leaves the building in response to "possible dangers;" protests take place across the country, include the country's second largest city Alexandria, where 100,000 meet to protest Morsi and the Muslim Brotherhood.

December 5: at least five are killed and hundreds injured as Morsi supporters attack (with the apparent acquiescence of the police) hundreds of Morsi opponents who had been staging a sit-in outside the presidential palace; Muslim Brotherhood offices are stormed in Ismailia and Suez; four Morsi advisors resign in protest, bringing the number of resignations from his 17-member advisory panel to six.

Thursday, December 6: elite Republic Guard tanks and troops are deployed outside the presidential palace in the wake of Wednesday's street clashes; the university of al-Azhar, Egypt's most important Islamic institution, calls for Morsi to suspend the decree; Morsi schedules a nation-wide televised address.

## Outlook

President Morsi may be calculating that a rush to approve the constitution will defuse public unrest, since his declaration of November 22 becomes null and void as soon as a new constitution is approved. Morsi's supporters have rallied Muslim Brotherhood members and the more conservative Salafists to his corner, holding loyalty rallies in response to opposition demonstrations. Meanwhile, many judges have gone on strike in protest, but others have promised to supervise the constitutional referendum. Egyptian law requires judicial supervision over elections, and it is unclear whether or not there will be enough judges for every ballot box if the referendum is held on December 15. With a referendum date now set and at least a partial commitment for judicial supervision, Morsi's opponents may be running out of options, and therefore may heighten their public displays of defiance in order to delegitimize the entire process.

Morsi's decree has been described as a serious overreach, and his rejection of judicial oversight over executive authority merely reinforces the zero-sum nature of Egyptian politics post Mubarak. If compromise between warring political factions is not reached, then the legitimacy of Egypt's transition will be perpetually in question, creating an atmosphere of instability for the foreseeable future.

### Debating Egypt's Constitution

Most criticism of the draft constitution comes from members of groups that boycotted the Assembly (i.e., secularists, liberals and Christians). Among their complaints: the constitution does not do enough to protect personal freedoms and the rights of minorities; gives too much power to the executive; and preserves many of the military's old prerogatives. Some Salafis and other Islamists have criticized the document for not doing enough to safeguard Egypt's Islamic identity. Debates over specific issues and provisions include:

- **Islam and the State**—Article 2 of the constitution states that "Islam is the religion of the state and Arabic its official language. Principles of Islamic Sharia are the principal source of legislation." Though Salafi calls to change "principles" to "laws" were rejected, Article 219 was added, defining 'the principles of Islamic Shariah' as including "general evidence, foundational rules, rules of jurisprudence, and credible sources accepted in Sunni doctrines and by the larger community." These seemingly minor semantic changes are actually deeply meaningful phrases rooted in the language of Islamic jurisprudence, and could have significant consequences depending on how they are interpreted. Article 4 specifies that the Islamic scholars of Al Azhar "are to be consulted in matters pertaining to Islamic law," though how this will work in practice is unclear.
- **Form of Government**—Since the revolution, Egyptians have debated whether to retain a strong presidential system of government, revert to a parliamentary system, or create some hybrid form of rule. The draft constitution features something of a hybrid, with a bicameral legislature (with terms of five years in the lower house and six in the upper) and a strong president (who may be elected to two four-year terms) who selects the Prime Minister.
- **Women's Rights and Social Issues**—articles 10 and 11 state that it is the prerogative of the state to "preserve the genuine character of the Egyptian family" and that the state "shall safeguard ethics, public morality and public order." Critics charge that these clauses violate previous guarantees of individual liberties and will enable the state to take a proactive role in enforcing Islamic norms throughout society. An original article committing the state to "taking all measures to establish equality between women and men" was removed in the final draft.
- **Role of the Military**—One of the most sensitive debates in Egyptian politics centers on enshrining military prerogatives and rights within the constitution. The final draft gives the military budgetary autonomy and secrecy, control over the selection of its leaders, war powers, and a formal role in formulating national security strategy and even foreign policy. The right of the military to try civilians under certain circumstances in military courts also remains despite heavy criticism by human rights groups.



Figure 1. Map of Egypt



Source: Map Resources, adapted by CRS.

## U.S. Policy

For the United States and Egypt, core aspects of the bilateral relationship remain intact, but disputes remain over other areas of potential cooperation. The Obama Administration seeks a stable Egypt that remains at peace with Israel per the existing terms of the 1979 Israeli-Egyptian peace treaty. It also seeks Egypt's cooperation in preventing terrorist groups in the Sinai Peninsula from destabilizing the region and in brokering talks between Palestinians and Israelis. The centrality of Egypt's role was evident in President Morsi's diplomacy during Israel's recent Operation Pillar of Defense in Gaza in November 2012. More broadly, the Administration and Congress also expect Egypt to continue its military and intelligence cooperation with the United States and facilitate transit through the Suez Canal for U.S. warships and over flight rights for U.S. aircraft. The Egyptian military also seeks to maintain its longstanding cooperation with the United States.

On the other hand, there are a number of issues that may hamper more robust U.S.-Egyptian relations. President Morsi may welcome U.S. assistance in stabilizing the country's economy

while at the same time he works to distance what Islamists believe has been Egypt's overreliance on the United States during the Mubarak regime. Many observers expect President Morsi to more forcefully advocate for Palestinian rights, criticize Israeli policy in the Middle East, and question the U.S. position as an honest broker in the peace process. Amongst segments of the American public and in Congress, there is some suspicion of the Muslim Brotherhood agenda, not just regarding Israel but also its espousal of liberal democracy and rights for women and religious minorities. The events of September 11, 2012, in which a visiting U.S. business delegation dispatched to Egypt to expand trade and investment was in Cairo while an angry mob attacked the U.S. Embassy, may be a harbinger of increased dissonance in U.S.-Egyptian bilateral relations for years to come.

## **U.S. Foreign Aid to Egypt**

Between 1948 and 2011, the United States provided Egypt with \$71.6 billion in bilateral foreign aid, including \$1.3 billion a year in military aid from 1987 to the present. Since 1979, Egypt has been the second-largest recipient, after Israel, of U.S. bilateral foreign assistance.<sup>3</sup> In July 2007, the George W. Bush Administration signed a 10-year Memorandum of Understanding (MOU) with Israel to increase U.S. military assistance from \$2.4 billion in FY2008 to over \$3 billion by 2018. Egypt received no corresponding increase in U.S. military aid; instead, the Bush Administration pledged to continue to provide Egypt with \$1.3 billion in military aid annually, the same amount it has received annually since 1987. Unlike with Israel and, separately, with Jordan, the Bush Administration's pledge did not involve signing a bilateral MOU with the Egyptian government. Congress typically specifies a precise allocation of foreign assistance for Egypt in the foreign operations appropriations bill. Egypt receives the bulk of foreign aid funds from three primary accounts: Foreign Military Financing (FMF), Economic Support Funds (ESF), and International Military Education and Training (IMET).<sup>4</sup>

## **Military Aid**

In FY2011, Egypt received almost a quarter of all U.S. FMF funds, and Israel received nearly 60%. FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts. U.S.-Egyptian coproduction of the M1A1 Abrams Battle tank, which began in 1988, is one of the cornerstones of U.S. military assistance to Egypt. Egypt plans to acquire a total of 1,200 tanks. Under the terms of the program, a percentage of the tank's components are manufactured in Egypt at a facility on

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<sup>3</sup> The 1979 Peace Treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and her Arab neighbors. In two separate memoranda accompanying the treaty, the United States outlined commitments to Israel and Egypt, respectively. In its letter to Israel, the Carter Administration pledged to "endeavor to take into account and will endeavor to be responsive to military and economic assistance requirements of Israel." In his letter to Egypt, former U.S. Secretary of Defense Harold Brown wrote that "the United States is prepared to enter into an expanded security relationship with Egypt with regard to the sales of military equipment and services and the financing of, at least a portion of those sales." Ultimately, the United States provided a total of \$7.3 billion to both parties in 1979. The Special International Security Assistance Act of 1979 (P.L. 96-35) provided both military and economic grants to Israel and Egypt at a ratio of 3 to 2, respectively, though this ratio was not enshrined in the treaty as Egypt would later claim.

<sup>4</sup> Egypt also receives, though not consistently, relatively small sums from the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account and the International Narcotics Control and Law Enforcement (INCLE) account. NADR funds support counter-terrorism training through the Antiterrorism Assistance Program. INCLE funds support police training and respect for human rights in law enforcement.

the outskirts of Cairo and the remaining parts are produced in the United States and then shipped to Egypt for final assembly. General Dynamics of Sterling Heights, MI, is the prime contractor for the program. Although there are no verifiable figures on total Egyptian military spending, it is estimated that U.S. military aid covers as much as 80% of the Defense Ministry's weapons procurement costs.<sup>5</sup> Egypt also receives Excess Defense Articles (EDA) worth hundreds of millions of dollars annually from the U.S. Defense Department. The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term. IMET assistance also makes Egypt eligible to purchase training at a reduced rate.

In addition to large amounts of annual U.S. military assistance, Egypt benefits from certain aid provisions that are available to only a few other countries. Since 2000, Egypt's FMF funds have been deposited in an interest bearing account in the Federal Reserve Bank of New York and have remained there until they are obligated. By law (P.L. 106-280), Congress must be notified if any of the interest accrued in this account is obligated. Most significantly, Egypt is allowed to set aside FMF funds for current year payments only, rather than set aside the full amount needed to meet the full cost of multi-year purchases. Cash flow financing allows Egypt to negotiate major arms purchases with U.S. defense suppliers.

**Table 1. U.S. Assistance to Egypt, FY2010-FY2013 Request**

(Regular and Supplemental Appropriations; Current Year \$ in Millions)

Account	FY2010	FY2011	FY2012	FY2013 Request
ESF	250.0	249.5	250.0	250.0
FMF	1,300.0	1,297.4	1,300.0	1,300.0
IMET	1.900	1.400	1.400	1.800
INCLE	1.000	1.000	.250	7.900
NADR	2.800	4.600	5.600	—
Total	1,555.7	1,553.9	1,557.25	1,559.7

## Economic Aid

During the 1980s and 1990s, Egypt received large amounts of annual economic loans and grants, mainly to support large-scale USAID infrastructure projects in sanitation, education, and telecommunications.<sup>6</sup> By the late 1990s, Congress began to scale back economic aid both to Egypt and Israel due to a 10-year agreement reached in the late 1990s known as the "Glide Path Agreement." In January 1998, Israeli officials, sensing that their economic growth had obviated the need for that type of U.S. aid at a time when Congress sought to reduce foreign assistance expenditures, negotiated with the United States to reduce economic aid and increase military aid over a 10-year period. A 3:2 ratio that long prevailed in the overall levels of U.S. aid to Israel and Egypt was applied to the reduction in economic aid (\$60 million reduction for Israel and \$40

<sup>5</sup> According to one source, U.S. military assistance pays for about a third of Egypt's overall defense budget each year. See, "Three Decades of Weapons, Training for Egypt Keep U.S. in Loop," Bloomberg, February 2, 2011.

<sup>6</sup> According to the U.S. State Department, U.S. economic aid has helped provide clean drinking water and sanitation to the city of Cairo, build more than 2,000 schools and double literacy levels, and decrease in the maternal mortality rate by over 50% and the child mortality rate by over 70%. See, U.S. State Department, Assistance to Egypt Fact Sheet, Office of the Spokesman, Washington, DC, May 19, 2011.

million reduction for Egypt), but Egypt did not receive an increase in military assistance. Thus, Congress reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008. The Bush Administration, whose relations with then-President Hosni Mubarak suffered over the latter's reaction to the Administration's democracy agenda in the Arab world, then requested that Congress cut ESF aid by half in FY2009 to \$200 million. Congress appropriated the President's request. Upon taking office in 2009, President Obama sought a \$50 million increase in economic aid to Egypt for FY2010, which Congress then passed.

In prior years, ESF funds were divided into two categories: USAID projects and cash transfers.<sup>7</sup> ESF funds are allocated to a variety of sectors, including health, education, economic growth, and democracy and governance. U.S. funding for the latter has been a source of acrimony between the United States and Egypt for years, culminating in the recent dispute over U.S. funding for non-governmental organizations.<sup>8</sup>

### *U.S. Funding for Democracy Promotion in Egypt*

Each year, a small portion of USAID-managed bilateral economic aid is spent on democracy promotion programs. On principle, the Mubarak government rejected U.S. assistance for democracy promotion activities, though it grudgingly accepted certain programming. On the other hand, democracy activists believe that the U.S. government, particularly during the Obama Administration and before the January 2011 popular uprising, had not been aggressive enough in supporting political reform in Egypt.

The Mubarak government staunchly opposed foreign support to independent civic groups that demanded government accountability, as well as civic groups that had not received government approval. During the Bush Administration, executive branch policymakers and Members of Congress directed some ESF toward direct support for Egyptian non-governmental organizations (NGOs).

In FY2005, Congress directed that "democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt]," language which remained in annual foreign operations appropriations legislation until FY2010 (see below).<sup>9</sup> Under Mubarak, Egypt had claimed that U.S. assistance programs must be jointly negotiated and could not be unilaterally dictated by the United States. P.L. 111-117, the Consolidated Appropriations Act, FY2010, contained general legislative language on the use of U.S. funds to NGOs, stating in Section 7034:

With respect to the provision of assistance for democracy, human rights and governance activities in this Act, the organizations implementing such assistance and the specific nature

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<sup>7</sup> It is unclear if USAID is still operating the cash transfer program, as it had been scheduled to be phased out by 2011.

<sup>8</sup> On February 6, Egyptian authorities charged 43 people, including the Egypt country directors of NDI and IRI, with spending money from organizations that were operating in Egypt without a license. 19 Americans, including Sam LaHood of IRI, the son of U.S. Transportation Secretary Ray LaHood, face criminal charges. Having departed Egypt, almost all of the accused Americans are being tried in absentia.

<sup>9</sup> Congress sought to ensure that U.S. foreign assistance for Egypt was being appropriately used to promote reform. In conference report (H.Rept. 108-792) language accompanying P.L. 108-447, the FY2005 Consolidated Appropriations Act, conferees specified that "democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt]. The managers intend this language to include NGOs and other segments of civil society that may not be registered with, or officially recognized by, the GoE. However, the managers understand that the GoE should be kept informed of funding provided pursuant to these activities."

of that assistance shall not be subject to the prior approval by the government of any foreign country.<sup>10</sup>

P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, became law on April 15, 2011, after the resignation of former Egyptian President Hosni Mubarak, and did not contain language addressing the NGO issue.<sup>11</sup> Appropriations for FY2012 contain multiple conditions on all types of assistance to Egypt (discussed below).

## **U.S. Foreign Aid to Egypt Since February 2011**

After Mubarak's resignation in February 2011, the Administration made several aid proposals for Egypt. In the weeks following the resignation, the Obama Administration reprogrammed \$165 million in already appropriated ESF for support to Egypt's economy (\$100 million) and political transition (\$65 million). In a speech delivered at the State Department on May 19, 2011, President Obama outlined a new plan for U.S. engagement with Arab countries undergoing political transitions, such as Egypt. Major components of that plan include the following:

- Launch a \$2 billion facility in the Overseas Private Investment Corporation (OPIC) to support private investment across the region.
- Provide up to \$1 billion in bilateral debt relief to Egypt, working with the Egyptian government to invest these resources to foster growth and entrepreneurship.
- Help Egypt regain access to capital markets by providing \$1 billion in U.S.-backed loan guarantees to finance infrastructure and job creation.
- Work with Congress to create enterprise funds to invest in Tunisia and Egypt, modeled after funds that supported the transitions in Eastern Europe after the fall of the Berlin Wall. Enterprise funds are to focus on making loans to, or investments in, small- and medium-sized (SME) businesses in the fund's host country that other financial institutions are reluctant to invest in.

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<sup>10</sup> P.L. 111-117. The conference report accompanying the Act notes, "the requirements of section 7034(m)(4) of this Act shall apply with respect to the provision of assistance to Egyptian NGOs."

<sup>11</sup> The FY2011 act did contain the following provisions on economic aid to Egypt: "That of the funds appropriated under this heading, up to \$250,000,000 shall be made available for assistance for Egypt for activities that support democratic elections, promote representative and accountable governance, protect human rights, strengthen civil society and the rule of law, reduce poverty, promote equitable economic development, and expand educational opportunities for disadvantaged Egyptian youth, including through scholarship programs: Provided further, That the Secretary of State shall submit a spending plan, including a comprehensive strategy to promote democracy and development, to the Committees on Appropriations for funds provided for Egypt under this heading: Provided further, That such plan shall not be considered as meeting the notification requirements under Section 7015 of division F of P.L. 111-117 or under Section 634A of the Foreign Assistance Act of 1961: Provided further, That such funds shall be subject to the regular notification procedures of the Committees on Appropriations: Provided further, That funds appropriated under this heading shall be made available to support democratic transitions in the Middle East and North Africa, including assistance for civil society organizations and the development of democratic political parties:" (b) Not later than 45 days after enactment of this Act, the Secretary of State shall submit to the Committees on Appropriations a report on Egypt detailing whether—(1) a transparent, political transition is occurring that includes the participation of a wide range of democratic opposition and civil society leaders and is responsive to their views; (2) the emergency law and other laws restricting human rights have been abrogated; protesters, political and social activists and journalists are not being arrested, detained or prosecuted for the peaceful exercise of their rights; and the government is respecting freedoms of expression, assembly and association; and (3) legal and constitutional impediments to free and fair presidential and parliamentary elections are being removed."

- Refocus the European Bank for Reconstruction and Development (EBRD) so that it may provide similar support for democratic transitions and economic modernization in the Middle East and North Africa as it has in Europe.
- Launch a comprehensive Trade and Investment Partnership Initiative in the Middle East, working with the European Union (EU), to encourage more trade within the region; build on existing agreements to promote integration with U.S. and European markets; and open the door to freer trade for countries that adopt high standards of reform and trade liberalization to construct a regional trade arrangement.

### **The Consolidated Appropriations Act, FY2012**

Overall, Congress has supported new Obama Administration proposals for Egypt but with conditions. P.L. 112-74, the Consolidated Appropriations Act, 2012, provides the full request for Egypt (\$1.55 billion), authorizes debt relief, and authorizes and appropriates funding for the creation of an enterprise fund to promote private sector investment. However, Section 7041 of P.L. 112-74 specifies that no funds may be made available to Egypt until the Secretary of State certifies that Egypt is meeting its obligations under the 1979 Egypt-Israel Peace Treaty. It further specifies that no military funds be provided until the Administration certifies that Egypt is supporting the transition to civilian government, including by holding free and fair elections and by implementing policies to protect freedom of expression, association, and religion, and due process of law. The Administration may waive these certifications under certain conditions. In addition, conferees directed the Secretary of State to submit a report to the Committees on Appropriations, not later than 60 days after enactment of the act, outlining steps that the government of Egypt is taking to protect religious minorities, including Coptic Christians; prevent sectarian and gender-based violence; and hold accountable those who commit such acts.

On March 15, the *New York Times* reported that the Administration intends to obligate FY2012 military aid to Egypt by exercising the waiver authority Congress granted it in Section 7041 (c) of P.L. 112-74, the Consolidated Appropriations Act 2012.<sup>12</sup> That section would waive a provision of law requiring the Secretary of State to certify to the Committees on Appropriations that the government of Egypt is supporting the transition to civilian government before FY2012 Foreign Military Financing to Egypt is obligated. According to the *New York Times* report, some Administration officials have argued that the certification should wait until the presidential election. However, existing FMF funding previously appropriated by Congress may be dwindling, and the Egyptian military may be at risk of missing defense contract payments.<sup>13</sup>

The Secretary of State exercised the waiver on March 23. In an accompanying statement, a State Department spokesperson said that “the secretary’s decision to waive is also designed to demonstrate our strong support for Egypt’s enduring role as a security partner and leader in promoting regional stability and peace.”

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<sup>12</sup> “Despite Rights Concerns, U.S. Plans to Resume Egypt Aid,” *New York Times*, March 15, 2012.

<sup>13</sup> op.cit.

## **Latest Foreign Aid Developments**

For FY2013, President Obama is requesting \$1.55 billion in total bilateral aid to Egypt (\$1.3 billion in military aid and \$250 million in economic aid). The aid levels requested are unchanged from FY2012 appropriations.

According to multiple reports, the Administration is currently negotiating with Egypt the terms for obligating funds that have already been appropriated by Congress, such as up to \$1 billion in bilateral debt relief and the seed capital for the enterprise fund mentioned above. Egypt currently owes the United States approximately \$3.2 billion from decades-old food aid loans. In order to provide debt relief, U.S. government agencies are required to value U.S. loans, such as bilateral debt owed to the United States, on a net present value basis rather than at their face value, and an appropriation by Congress of the estimated amount of debt relief is required in advance. P.L. 112-74 did provide that ESF funds appropriated for Egypt in the act and from prior acts could be used for an Egypt debt initiative. Moreover, according to P.L. 112-74, bilateral debt relief funds would be a “swap” and channeled into programs that improve “the lives of the Egyptian people through education, investment in jobs and skills (including secondary and vocational education), and access to finance for small and medium enterprises with emphasis on expanding opportunities for women, as well as other appropriate market-reform and economic growth activities.”

Given the rampant anti-Americanism permeating Egyptian politics at the moment and general concern over the intentions of the Muslim Brotherhood in Egypt, some lawmakers have sought to limit additional U.S. economic aid to Egypt. In late September 2012, House Foreign Affairs Committee Chairwoman Ileana Ros-Lehtinen and House Foreign Operations Appropriations Subcommittee Chairwoman Kay Granger placed holds on a congressionally notified \$450 million Economic Support Fund (ESF) cash transfer to Egypt. Those funds that would have been used to pay down Egypt’s bilateral debt to the United States in exchange for Egyptian government commitment to a fiscal stabilization program as prescribed by the International Monetary Fund. As of early December 2012, the holds on the cash transfer remain in place.

## **FY2013 State and Foreign Operations Appropriations Bills**

House (H.R. 5857)—The House bill provides the full Administration request for Egypt of \$250 million in ESF and \$1.3 billion in FMF. It includes a number of specific directives, including:

- Section 7042 of the bill contains a certification that no funds may be made available for Egypt unless the Secretary of State certifies to the Committees on Appropriations that Egypt’s central government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.
- The bill also contains a requirement stating that prior to obligations of ESF and FMF, the Secretary of State shall certify that the Government of Egypt (1) has completed the transition to civilian government, including holding free and fair elections; and (2) is implementing policies to protect freedom of expression, association, and religion, and due process of law. The Secretary of State may waive these requirements if the Secretary determines and reports to the Committees on Appropriations that to do so is in the national security interest of the United States. The bill states that such a determination and report shall include a detailed justification for such waiver and that the Secretary of State

- shall consult with the Committees on Appropriations prior to waiving such requirements.
- In addition, the Committee on Appropriations must be consulted prior to the transfer of FMF funds to an interest-bearing account for Egypt. The committee also must be notified 15 days in advance of the obligation of funds for Egypt.
  - The committee also directs the Secretary of State to submit a report to the Committees on Appropriations, not later than 90 days after enactment of this act, detailing the status of human rights within Egypt. The report should include whether the government of Egypt is providing adequate protection for religious minorities, including protection of Coptic Christians, their property, and their places of worship.
  - The committee directs the Secretary of State to report to the Committees on Appropriations, not later than 90 days after enactment of this act, on all assistance provided under this heading for Egypt from fiscal year 2008 through 2012. The report should include the following: (1) the ministries, agencies, or instrumentalities of the government of Egypt that received funding; (2) United States, international, or Egyptian organizations that received funding; (3) a description of the purpose of each program, project, or activity; (4) whether each program, project, or activity complied with mandatory audit requirements; and (5) a description of whether each program, project, or activity fulfilled its stated purpose.
  - Section 7032 of the bill contains a passage stating that “None of the funds appropriated or otherwise made available by title III of this Act may be obligated for direct Government-to-Government assistance if such assistance is to a government that is actively and significantly interfering with the operation of civil society organizations.” This restriction does not specifically refer to Egypt but could possibly apply to some economic aid to Egypt should its government obstruct operations of non-governmental organizations.

Senate (S. 3241)—The Senate bill also contains most of the Administration request for Egypt, though it “reduces assistance for Egypt under ESF by an amount equal to the amount posted as bail in February 2012 for members of United States NGOs operating in Egypt.” The Senate bill includes the following provisions:

- “None of the funds appropriated under titles III and IV of this Act and in prior Acts making appropriations for the Department of State, foreign operations, and related programs may be made available for assistance for the Government of Egypt unless the Secretary of State certifies to the Committees on Appropriations that such government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.”
- “The President shall submit to the Committees on Appropriations, concurrent with the fiscal year 2014 budget request, a comprehensive review of United States assistance for Egypt, including the strategic purposes and mechanisms for disbursing such assistance, and specific programs to be conducted in furtherance of security sector and other reforms.”
- “Funds appropriated by this act under the heading ‘Foreign Military Financing Program’ for assistance for Egypt shall be made available for border security



programs in the Sinai, and for purposes related to peacekeeping and disaster response: Provided, That a portion of such funds estimated to be outlaid during fiscal year 2013 may, following consultation with the Committees on Appropriations, be transferred to an interest bearing account for Egypt in the Federal Reserve Bank of New York: Provided further, That funds appropriated by this Act under the heading ‘Economic Support Fund’ shall be made available to promote security sector reform in Egypt, in accordance with section 7034(r) of this Act.”

- “Prior to the initial obligation of funds appropriated by this Act for assistance for Egypt under the heading ‘Foreign Military Financing Program’, the Secretary of State shall certify to the Committees on Appropriations that the Government of Egypt is a democratically elected civilian government that is implementing policies to—(A) provide civilian control over, and public disclosure of, the military and police budgets; (B) fully repeal the Emergency Law; and (C) protect judicial independence; freedom of expression, association, assembly, and religion; the right of political opposition parties, civil society organizations, and journalists to operate without harassment or interference; and due process of law. The Secretary of State, after consultation with the Committees on Appropriations, may waive the requirements of paragraphs (1) and (4) if the Secretary determines and reports to the Committees on Appropriations that to do so is important to the national security interest of the United States: Provided, That such determination and report shall include a detailed justification for such waiver.”

**Table 2. Top 10 recipients of U.S. Foreign Assistance, FY2012 and FY2013 Req.**  
(in millions)

FY2012		FY2013 Req.	
1. Israel	\$3,075	1. Israel	\$3,100
2. Afghanistan	\$2,327	2. Afghanistan	\$2,505
3. Pakistan	\$2,102	3. Pakistan	\$2,228
4. Iraq	\$1,683	4. Iraq	\$2,045
<b>5. Egypt</b>	<b>\$1,557</b>	<b>5. Egypt</b>	<b>\$1,563</b>
6. Jordan	\$676	6. Jordan	\$671
7. Kenya	\$652	7. Nigeria	\$599
8. Nigeria	\$625	8. Tanzania	\$571
9. Ethiopia	\$580	9. South Africa	\$489
10. Tanzania	\$531	10. Kenya	\$460

**Source:** Allocation tables provided to CRS by the Department of State, F Bureau. Does not include funding from independent agencies such as MCC, which, if included, could change the ranking of Tanzania.

**Table 3. U.S. Foreign Assistance to Egypt**  
(\$ in millions)

<b>Fiscal Year</b>	<b>Economic</b>	<b>Military</b>	<b>IMET</b>	<b>Total</b>
1948-1997	23,288.6	22,353.5	27.3	45,669.4
1998	815.0	1,300.0	1.0	2,116.0
1999	775.0	1,300.0	1.0	2,076.0
2000	727.3	1,300.0	1.0	2,028.3
2001	695.0	1,300.0	1.0	1,996.0
2002	655.0	1,300.0	1.0	1,956.0
2003	911.0	1,300.0	1.2	2,212.2
2004	571.6	1,292.3	1.4	1,865.3
2005	530.7	1,289.6	1.2	1,821.5
2006	490.0	1,287.0	1.2	1,778.2
2007	450.0	1,300.0	1.3	1,751.3
2008	411.6	1,289.4	1.2	1,702.2
2009	250.0	1,300.0	1.3	1,551.3
2010	250.0	1,300.0	1.9	1,551.9
2011	249.5	1,297.4	1.4	1,548.3
2012	250.0	1,300.0	1.4	1,551.4
<b>Total</b>	<b>31,320.3</b>	<b>41,809.2</b>	<b>44.54</b>	<b>73,174.0</b>

Table 4. U.S. Foreign Assistance to Egypt, 1946-1997

(\$ in millions)

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588. 5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4
1980	1,167. 3	—	—	0.8	—	—	—	280.0	585.0	285.3	16.1
1981	1,681. 2	550	—	0.8	—	—	—	70.0	759.0	272.5	28.9
1982	1,967.	700	200.0	2.4	—	—	—	—	771.0	262.0	31.9

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
	3										
1983	2332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8
1984	2,470.8	900	465.0	1.7	—	—	—	—	852.9	237.5	13.7
1985	2,468.7	—	1,175.0	1.7	—	—	—	—	1,065.1	213.8	13.2
1986	2,539.1	—	1,244.1	1.7	—	—	—	—	1,069.2	217.5	6.6
1987	2,317.0	—	1,300.0	1.8	—	—	—	—	819.7	191.7	3.9
1988	2,174.9	—	1,300.0	1.5	—	—	—	—	717.8	153.0	2.6
1989	2,269.6	—	1,300.0	1.5	—	—	1.5	—	815.0	150.5	1.2
1990	2,397.4	—	1,294.4	1.6	—	—	—	—	898.4	203.0	—
1991	2,300.2	—	1,300.0	1.9	—	—	—	—	780.8	165.0	52.5
1992	2,235.1	—	1,300.0	1.8	—	—	—	—	892.9	40.4	—
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
<b>Total</b>	<b>45,669.4</b>	<b>4,550</b>	<b>17,803.5</b>	<b>27.3.0</b>	<b>11.2</b>	<b>80.7</b>	<b>82.8</b>	<b>2,620.7</b>	<b>15,923.8</b>	<b>4,114.3</b>	<b>455.1</b>

**Notes:** Totals may not add due to rounding. No U.S. aid programs for years 1947, 1949, 1950, 1968, 1969, 1970, and 1971. P.L. 480 II Grant for 1993 includes \$2.1 million in Sec. 416 food donations.

TQ = Transition Quarter; change from June to September fiscal year

\* = less than \$100,000

I.M.E.T. = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

D. A. = Development Assistance

ESF = Economic Support Funds

P.L. 480 I = Public Law 480 (Food for Peace), Title I Loan

P.L. 480 II = Public Law 480 (Food for Peace), Title II Grant

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